

PROPOSITION

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LOCAL GOVERNMENT FUNDS, REVENUES. STATE MANDATES. INITIATIVE CONSTITUTIONAL AMENDMENT.

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

Local Government Funds, Revenues. State Mandates. Initiative Constitutional Amendment.

- Requires voter approval for any legislation that provides for any reduction, based on January 1, 2003 levels, of local governments' vehicle license fee revenues, sales tax powers and revenues, and proportionate share of local property tax revenues.
- Permits local government to suspend performance of state mandate if state fails to reimburse local government within 180 days of final determination of state-mandated obligation; except mandates requiring local government to provide/modify: any protection, benefit or employment status to employee/retiree, or any procedural/substantive employment right for employee or employee organization.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Significant changes to state authority over local finances. Higher local government revenues than otherwise would have been the case, possibly in the billions of dollars annually over time. Any such local revenue impacts would result in decreased resources to the state of similar amounts.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Local Government Funding

California has over 5,000 local governments—cities, counties, special districts, and redevelopment agencies—that provide services such as fire and police protection, water, libraries, and parks and recreation programs. Local governments pay for these programs and services with money from local taxes, fees, and user charges; state and federal aid; and other sources. Three taxes play a major role in local finance because they raise significant sums of general-purpose revenues that local governments may use to pay for a variety of programs and services. These three taxes—the property tax, the local sales tax, and the vehicle license fee (VLF)—are described in Figure 1.

State Authority Over Local Finance

The State Constitution and existing statutes give the Legislature authority over the three major taxes described in Figure 1. For example, the Legislature has some authority to change tax rates; items subject to taxation; and the distribution of tax revenues among local governments, schools,

and community college districts. The state has used this authority for many purposes, including increasing funding for local services, reducing state costs, reducing taxation, and addressing concerns regarding funding for particular local governments. Figure 2 describes some past actions the Legislature has taken, as well as actions that the state was considering during the summer of 2004 (at the time this analysis was prepared).

Requirement to Reimburse for State Mandates

The State Constitution generally requires the state to reimburse local governments, schools, and community college districts when the state “mandates” a new local program or higher level of service. For example, the state requires local agencies to post agendas for their hearings. As a mandate, the state must pay local governments, schools, and community college districts for their costs to post these agendas. Because of the state’s budget difficulties, the state has not provided mandate reimbursements in recent years. Currently, the state owes these local agencies about \$2 billion for prior-years’ costs of state-mandated programs.